Annual Report 1986

Annual Report of the Chairman and President

Grant L. Reuber, Chairman, and Dr. Wendy Dobson, President

The turbulent world environment of recent years has created severe challenges for small, open economies such as Canada's. They must respond to the internal strains and stresses posed by dramatic and unexpected shifts in international markets. Moreover, in framing policies, small countries must pay special attention to the policies and performance of their major trading partners.

The C.D. Howe Institute's major activities in 1986 were based on these two premises. Its research anticipated the resurgence in regional stresses caused by the dramatic drop in world oil, wheat, and other primary product prices. Policy approaches were recommended to cushion the effects of these changes and facilitate adjustment, rather than shield industry from change.

The Institute intensified research on trade, industrial, and investment policies appropriate to the turbulent environment. In September, an International Workshop on Trade and Industrial Policy created a watershed for future Institute research in this area. Work also began on Canadian-U.S.-Japanese economic relations. These new directions will complement the Institute's long-standing interest in macroeconomic policy. Related projects will pay special attention to the implications of Canada's inflation performance and to the complex and important relationships between tax and social policy in Canada.

A significant event in 1986 was the creation of a joint venture in research and education with the Western Centre for Economic Research at the University of Alberta. A jointly sponsored public conference was convened in November; the first joint publication in the project's *Western Studies in Economic Policy* is planned for 1987.

Two other events of major significance occurred during the year. One was the retirement of Chairman Michel Bélanger in June. His insightful and tireless leadership played a vital role in advancing the Institute's accomplishments during the preceding two years. The second was the death of William Dodge, former Secretary-Treasurer of the Canadian Labour Congress, who made an indelible contribution to the Institute over the course of many years. He is sadly missed.

The Institute's many members and subscribers have made possible yet another year of significant accomplishment, as have a competent and dedicated staff. We anticipate an active year in 1987, with increased emphasis on defining strategic trade and industrial policy options. In this, the focus will be on encouraging the forward-looking and outward-looking attitudes that are essential in a rapidly changing and unpredictable international environment.

Grant L. Reuber, Chairman

Wendy Dobson, President

Management Changes

Wendy Dobson stepped down as President of the Institute, effective the end of February 1987. Her skillful and tireless direction of the Institute since 1981 has made a major contribution not only to the work and development of the Institute but also to the discussion and evolution of public policy in Canada. She has been granted leave of absence to join the Department of Finance in Ottawa as Associate Deputy Minister, where, happily, her exceptional talents will remain fully employed in the service of the country. All members of the Institute greatly appreciate the enormous contributions that Dr. Dobson has made to the Institute in the past. We congratulate her on her appointment and wish her all the best as she assumes her important new responsibilities.

Mrs. Maureen Farrow was appointed the new President of the Institute, effective May 1, 1987. She has an extensive background in economic and public policy analysis and most recently has been head of the Economics Practice of Coopers & Lybrand. She will be on full-time assignment to the Institute.

An additional management change has been the promotion of Mr. Edward A. Carmichael to Vice-President, from his present position of Director of Policy Research. Mr. Carmichael has played an important role in the work of the Institute since 1982 and is the author of a number of influential Institute studies that have attracted wide attention, both inside and outside government.

On behalf of all members of the Institute, I wish Mrs. Farrow and Mr Carmichael every success as they take up their new assignments.

Grant L. Reuber, Chairman

Some members of the Institute's Board of Directors: (standing, from left to right) Dr. John Evans, Adam H. Zimmerman, William A. Dimma, Dr. Robert Richardson, Michel Bélanger, Patricia Johnston-Lavigueur; (seated, from left to right) Dr. Richard G. Lipsey, Jack M. MacLeod, Grant L. Reuber, Dr. Wendy Dobson and Pierre Lortie.

An Independent Canadian Voice

For over 14 years, the C.D. Howe Institute has played a unique role in Canadian life. As the country's leading independent voice on economic policy issues, the Institute has contributed in significant ways to the ongoing debate over Canada's economic options. In the process, it has helped shape the way Canadians think about, discuss, and decide public policy.

The Institute's major contribution to the economic policy debate is made through the research program. The annual *Policy Review and Outlook*, *C.D. Howe Institute Commentary*, and the Institute's many other publications have tackled the leading macroeconomic, industrial, and international policy issues facing Canada, frequently challenging conventional ideas, but always offering concrete choices for action by government and the private sector.

Less well known is the Institute's role in educating and promoting understanding of economic issues among Canadians. Through committees, symposia, and members' programs, the Institute brings together leaders, experts, and interested individuals from many different fields to discuss the issues affecting the future both of Canada and of the international economic system.

The C.D. Howe Institute is an independent, nonpartisan, and nonprofit institution. It was created in 1973 through a merger of the C.D. Howe Memorial Foundation and the Private Planning Association of Canada. The Foundation had been created in 1961 to memorialize the late Right Honourable Clarence Decatur Howe, who served in successive Canadian governments from 1935 to 1957. The Private Planning Association of Canada was a unique forum established in 1958 by business and labor leaders to conduct research and educational activities on economic policy issues.

The Institute continues to receive a small grant from the C.D. Howe Memorial Foundation, but is mainly dependent on funds raised in Canada from the private sector. Membership is open to corporations, labor groups, and individuals. Financial contributions and membership fees are deductible for income tax purposes.

The Institute's strength is its people. It employs outstanding research staff whose work is supplemented by a program of visiting professionals and links with a number of scholars and compatible institutions. A board of directors, consisting of some of Canada's leading business people, is responsible for the Institute's general direction and for safeguarding its independence.

Highlights

Nineteen eighty-six was a year of achievement, highlighted by two separate but significant developments — one regional and the other international.

The Institute embarked on major initiatives to improve understanding of regional economic issues and to provide Canada's regions with more opportunity to contribute their perspective on national policy issues. A pioneering study of the regional implications of economic policy, ***New Stresses on Confederation***, by Edward A. Carmichael, Director of Policy Research, was released early in the year to a wide and enthusiastic readership. In September, the Institute launched a joint venture with the Western Centre for Economic Research of the University of Alberta. The two institutions began work together on studies of western Canadian economic challenges and strategic options in mid-November, when they cosponsored a high-profile conference on the western Canadian economy.

The year also underscored the growing international stature of the Institute. "Freer Trade in the Pacific Economic Triangle," a paper presented by Wendy Dobson to a conference in Japan, sparked wide interest. Research staff were in demand as advisors and speakers in countries as far afield as China, the United States, Japan, and Kenya. Richard G. Lipsey, Senior Economic Advisor, visited China as a guest of the Chinese Academy of Social Sciences and consulted with government officials involved in central planning and economic reform. In March, he delivered an address to a meeting of the International Monetary Fund in Washington, D.C. Institute President Wendy Dobson was a keynote speaker at a Japanese conference on international trade along with Haruo Mayekawa, former Governor of the Bank of Japan. She also participated in a conference in Nairobi on the role of the private sector in African economic development.

An important objective of the Institute is the wide dissemination of its views. Thanks to an agreement negotiated in 1986, Institute publications will be marketed by the College Division of Prentice-Hall Canada Inc. and distributed through selected bookstores.

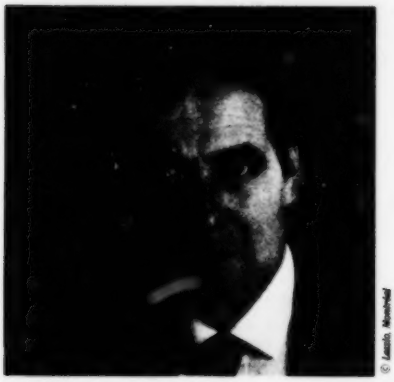
The Institute named as Counsellors two prominent and accomplished Canadians: Peter Lougheed, former Premier of Alberta, and Walter F. Light, former Chairman of Northern Telecom Ltd. and now Chairman of the blue-ribbon, private-sector International Trade Advisory Committee (ITAC).

The Institute also initiated the "Fellow-in-Residence" program, designed to augment its research capabilities. A visiting specialist from the private sector or academia will spend three to six months each year working with the Institute on research or educational activities.

It was a busy year for the Institute's economists, who were invited to speak to more than 50 groups in Canada and abroad and were interviewed frequently on television and radio public affairs programs. In addition, Institute Vice-President Claude E. Forget chaired the federal Commission of Inquiry on Unemployment Insurance. Dr. Dobson served on ITAC and, in that capacity, attended the opening of the new round of GATT talks in Uruguay. She also served on the Canadian Institute of Chartered Accountants' Commission on Public Expectations of Audits and sat on the National Statistics Council.

The Research Program

Richard G. Lipsey, Senior Economic Advisor



Claude E. Forget, Vice-President

Edward A. Carmichael, Director of Policy Research

The 1986 research program was directed toward the study of policy areas where adjustments are required to improve Canada's ability to respond to rapid changes in the international environment.

Economic Management The highlight of the publishing year was *New Stresses on Confederation,* which examined the cause of disparate growth rates in different regions of the country. Central Canada has experienced a strong rebound from the 1981-82 recession, while regional economies in the East and West have been weakened by falling world prices for natural resources. The study recommends economic policies that would cushion regions with poor growth while allowing necessary private-sector adjustment to change.

The Institute also brought out the latest in a series of studies designed to encourage public understanding of and debate over monetary policy. *Monetary Policy in Transition,* by Peter Howitt of the University of Western Ontario, provides a critical assessment of Canadian monetary policy during the 1982-85 period. Widely praised for the quality of its research and analysis, the study suggests that flexibility in controlling the money supply represents a promising monetary policy approach for the late 1980s.

The Institute also produced a timely study on *Ontario's Proposals for the Canadian Securities Industry,* which outlines the major challenges to the securities industry and assesses recent proposals put forward in Ontario for reforming the regulatory environment.

The Institute published its critique of the February 26, 1986, federal budget in its March *Commentary.* While applauding the intent of the budget in reducing the deficit and significantly slowing the build-up of public debt, the *Commentary* also pointed to a number of concerns, including the need to control the growth on nonstatutory spending and to reform tax and spending programs.

The year concluded with *Confronting Global Challenges: Policy Review and Outlook, 1987,* which focused on the urgent need for a coherent policy framework for Canada. The study urged a strategic approach in managing Canada's relationship with the United States and cited deficit reduction as the country's top macroeconomic priority.

Trade Little work has sparked as much interest or controversy in recent years as the Institute's research on Canada's trade options. Richard G. Lipsey, Senior Economic Advisor, and Murray G. Smith, Senior Policy Analyst, followed up on their influential 1985 study, *Taking the Initiative,* with an edited collection of studies, *Policy Harmonization,* examining pressures on Canada – both in the absence of a free trade agreement and during and after the conclusion of negotiations – to harmonize economic policies with those of the United States. Undertaken at the request of the federal government, *Policy Harmonization* examines the implications for such policy areas as taxation, subsidies, culture, and agriculture.

The Institute also cosponsored a series of four seminars on trade issues with Pace University in New York. In Canada, staff members addressed meetings of the Canadian Club in nine provinces and spoke at a number of university seminars and trade association meetings.

The 1987 Research Program

In addition to maintaining a broad focus on macroeconomic and trade policy themes, the 1987 research program will examine, through a series of studies, the role of public policy in shaping Canada's economic future. Policy can assist the development of industries of the future, but it also can hinder progress if it attempts to delay the inevitable decline of those that are uncompetitive. This research, which grows out of the September 1986 workshop on Shaping Comparative Advantage, also will focus on the critical relationship between trade and industrial policy in smaller countries such as Canada.

Other research priorities include an examination of possibilities for reform of Canadian social and tax policy, recognizing that the two must change at the same time if goals for social and fiscal responsibility are to be met. The Institute's focus on budget policy and fiscal deficits, at both the federal and provincial levels, will continue in 1987. The Institute will also publish the latest in its *Inflation Monitor* series.

Research Staff Biographies

Murray G. Smith, Senior Policy Analyst

Daniel Denis, Policy Analyst

Richard G. Lipsey, Senior Economic Advisor.
Sir Edward Peacock Professor of Economics, Queen's University, since 1970; former Chairman, Department of Economics, University of Essex (1964-70); Fellow of the Royal Society of Canada. Author of a number of books, including *An Introduction to Positive Economics; Economics: An Introductory Analysis; An Introduction to Mathematical Treatment of Economics;* and more than 60 articles on economic theory and policy questions.

Claude E. Forget, Vice-President.
Former Minister of Social Affairs, Government of Québec (1973-76); Assistant Deputy Minister, Québec Ministry of Social Affairs (1971-73); educated at l'Université de Montréal, London School of Economics, and Johns Hopkins University. Author of *Education Policy in Canada: The Urgent Issues* (1985); *La Caisse de dépôt et placement du Québec: sa mission, son impact et sa performance* (1984); *Québec's Experience with the Personal Income Tax* (1982); and *The Québec Referendum: What Happened and What is Next* (1980).

Edward A. Carmichael, Director of Policy Research.
Former senior economist, Shell Canada Limited (1980-82); senior economist, Conference Board of Canada (1977-80); educated at Carleton University and Queen's University. Author of all recent editions of the Institute's annual *Policy Review and Outlook; New Stresses on Confederation* (1986); *Canada's Energy Policy: 1985 and Beyond* (1984); *Tackling the Federal Deficit* (1984); and many other publications.

Murray G. Smith, Senior Policy Analyst.
Research Director for the Canadian-American Committee; former Director, International Economic Relations, Government of British Columbia; educated at the University of British Columbia and the University of Michigan. Author of *Closing a Trade Deal* (1986); and co-author of *Taking the Initiative: Canada's Trade Options in a Turbulent World* (1985).

Daniel Denis, Policy Analyst.
Former financial economist with the National Bank of Canada and consultant with SECOR Inc.; educated at l'Université de Montréal. Author of *La rémuneration dans le secteur public* (1986); *Pour une nouvelle politique budgétaire québécoise* (1985); and contributor to *Le marché du travail au Québec* (1985).

Executive Services

Thank you for providing me with the latest *Commentary;* per usual it reflects the high standards of the C.D. Howe Institute.

Rt. Hon. Brian Mulroney
Prime Minister of Canada

As Canadians move to set their national fiscal priorities for the remainder of the twentieth century, the appearance of a thoughtful analysis of our monetary policies, such as [*Monetary Policy in Transition*] is most timely.

Rt. Hon. John Turner
Official Leader of the Opposition

I have enjoyed my association with the Institute but primarily feel that it plays an important role in Canadian unity and national affairs.

M.M. Williams
Chairman and Chief Executive Officer
TransAlta Utilities Corporation

I think the Institute is very important to Canada and I believe you and your associates are doing a first-class job.

E. Sydney Jackson
President
Manufacturers Life
Insurance Company

The Institute provides members with numerous opportunities to take advantage of its research and educational work.

One very popular program is the monthly *Policy Roundtable* series, which brings together leading economists and policymakers from outside the Institute as well as Institute members and staff for discussions on current issues. In 1986, guest speakers at these informal luncheon meetings included Dr. C. Michael Aho, Senior Fellow-Economics, Council on Foreign Relations, who spoke on trade negotiations, and Dr. Douglas Wright, President of the University of Waterloo, who led a discussion on industrial innovation.

In 1986, the Institute's quarterly *Executive Forum* series focused on bilateral trade issues. Invited guests included Ambassador Gordon Ritchie, Deputy Chief Negotiator for Canada, and William S. Merkin, Deputy Assistant U.S. Trade Representative for Canada, who presented their country's respective views on the negotiations. OECD Secretary General Jean-Claude Payé was the guest speaker at a special luncheon in October at which he consulted members on their views of the global economic situation and prospects in the OECD countries.

The Committees Members have a unique opportunity to participate in important national and international policy discussions through the Institute's standing committees. The committees also provide valuable input to staff.

The Canadian-American Committee continued to focus on bilateral trade negotiations. A highlight of the March meeting in Washington was a session on the trade talks led by Michael Smith, Deputy U.S. Trade Representative, and Gerry Shannon, Senior Assistant Deputy Minister, Canadian Department of Finance. At the September meeting in Ottawa, Committee members discussed solutions to obstacles in negotiations. Among the guest speakers was the Rt. Hon. Joe Clark, Secretary of State for External Affairs.

The future of Canada's natural resource industries and new approaches to health care were among the critical issues examined by the Howe Institute Policy Analysis Committee (HIPAC) during meetings in Toronto and Ottawa.

An outstanding roster of speakers highlighted the meetings of the British-North American Committee. At the group's June meeting in Eastbourne, England, William B. Kelly, Director General of GATT, discussed the current multilateral trade negotiations. Guest speakers at the December meeting in Orlando, Florida, included David Stockman, former Director of the U.S. Office of Management and Budget.

This publication [*Reorienting the Canadian Economy*] is of particular interest to my colleagues and me in the Government of Saskatchewan as it addresses the issues which we believe to be vital to the future of our province and the country as a whole.

Grant Devine
Premier of Saskatchewan

You have a way of expressing things which are complex in a very clear style, which is as refreshing as it is informing.

Brian James
President
Rubber Association of Canada

Auditors' Report

The Members,
C.D. Howe Institute

We have examined the balance sheet of the C.D. Howe Institute as at December 31, 1986, and the statement of income, expenses, and accumulated revenue for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

In common with many nonprofit organizations, the C.D. Howe Institute derives part of its income from contributions which are not susceptible to complete audit verification. Accordingly, our verification of revenue from this source was limited to amounts recorded in the books of the Institute.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves with respect to contributions, these financial statements present fairly the financial position of the Institute as at December 31, 1986, and the results of its operations and changes in its financial position for the year then ended in accordance with accounting policies as described in Notes 1 and 2 of the financial statements, applied on a basis consistent with the preceding year.

Touche Ross & Co.

Touche Ross & Co. Chartered Accountants
North York, Ontario, January 16, 1987.

Financial Statements

C.D. HOWE INSTITUTE
(Incorporated under Part II of the Canada Business Corporations Act)
Balance Sheet
as at December 31, 1986

Assets	**1986**	1985
Current		
Cash	**$ 1,163**	$ 5,263
Cash designated for capital projects	**–**	10,673
Deposits at interest (Note 3)	**273,172**	264,825
Accounts receivable	**32,267**	50,935
Prepaid expenses	**4,452**	1,000
	311,054	332,696
Fixed		
Furniture and fixtures	**108,746**	96,976
Less accumulated depreciation	**57,544**	49,515
	51,202	47,461
Capital outlay to be recovered in future years (Note 2)	**11,568**	34,327
	$373,824	$414,484
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 41,998**	$ 35,790
Unearned revenue (Note 1)	**34,000**	69,718
Note payable – current	**–**	29,500
	75,998	135,008
Loan payable	**–**	15,500
Capital, Accumulated Revenue and Reserve		
Capital	**212,898**	212,898
Accumulated revenue	**64,928**	51,078
	277,826	263,976
Reserve for repairs (Note 5)	**20,000**	–
	297,826	263,976
	$373,824	$414,484

See accompanying notes to financial statements.

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See accompanying notes to financial statements.

Financial Statements

C.D. HOWE INSTITUTE

Statement of income, Expenses and Accumulated Revenue for the Year Ended December 31, 1986

	1986	1985
Income		
Members' contributions (Note 1)	$ 764,990	$ 683,715
Sales of publications	16,535	30,328
Contract revenue	83,407	59,638
C.D. Howe Memorial Foundation grant	138,542	125,000
Other income	89,397	95,384
	1,092,871	994,065
Total expenses	1,049,021	993,487
Allocation for capital expenditure (Note 2)	10,000	5,000
Allocation for reserve for repairs	20,000	–
	1,079,021	998,487
Excess of income over expenses	13,850	(4,422)
Accumulated revenue, beginning of year	51,078	55,500
Accumulated revenue, end of year	$ 64,928	$ 51,078

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 1986

1. Summary of significant accounting policies

a. The financial statements of the Institute have been prepared on the accrual basis of accounting, except for contributions which are recorded as received.

b. Monies received on account of specific future contracts are recorded as unearned revenue when received, and are taken into income in the period in which the related expenses are incurred.

c. Fixed asset additions are recorded at cost. Depreciation is calculated using the straight-line basis at 10% per annum.

d. Publications are not recorded as inventory, and all costs associated with their production are expensed as incurred.

2. Capital expenditure

During the years ended December 31, 1985, and December 31, 1986, the Institute incurred capital expenditure with respect to leasehold improvements made as a result of the move to 125 Adelaide Street East, Toronto. The Institute has obtained outside sponsorship of these costs. However, in keeping with the accounting policy of recognizing contributions only upon receipt thereof, the Institute has elected to carry the asset capital outlay to be recovered in future years until such time as these pledges are received. The following is a schedule outlining this transaction.

The capital outlay to be recovered in future years is covered by pledges from various sources and will be received in 1987 and 1988.

The promissory note for $45,000 used to finance part of the capital expenditure was repaid during the year. Originally the Institute intended to pay off the debt as pledges were received in 1986, 1987, and 1988. However, during the year it was decided to pay off the debt from current funds and then replenish cash reserves as pledges are received.

Capital costs incurred 1985			$301,696
1986			6,741
			308,437
Pledges received 1984	$ 63,025		
1985	194,344		
1986	19,500	$276,869	
General membership contributions 1985		5,000	
Allocated from operating fund 1985	5,000		
1986	10,000	15,000	296,869
Capital outlay to be recovered in future years			$ 11,568

3. Deposits at interest

Cash is maintained in a treasury account requiring a minimum balance of $100,000 and receiving interest at the bank prime rate less 3%.

4. Commitments

Future minimum operating lease commitments for office space until 1991 are as follows:

1987	$ 25,000
1988	25,000
1989	25,000
1990	25,000
1991	25,000
	$125,000

Annual payments after 1989 will exceed $25,000 by a percentage of any increase in the Consumer Price Index at that date.

5. Reserve for repairs

	1986
Balance at beginning of year	$ –
Allocation for year	20,000
	20,000
Charges made during year	–
Balance at end of year	$20,000